Office-Supreme Court, U.S.
FILED
JUL 28 1969
JOHN F. DAVIS, CLERK

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1969

No. 398

COMPONENTS, INC., *Petitioner,*

v.

WESTERN ELECTRIC COMPANY, INCORPORATED
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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Petitioner prays that a writ of certiorari issue reviewing the judgment of the Court of Appeals for the Third Circuit entered in the subject case on May 7, 1969.

THE OPINION BELOW

The opinion of the Court of Appeals for the Third Circuit (*infra*, p. 1a) is as yet unreported. The order of the District Court for the District of New Jersey (*infra*, p. 7a) is unreported. The judgment of the court below was entered on May 7, 1969, the day the opinion was rendered. A timely petition for rehearing was denied on June 6, 1969.

JURISDICTION

The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

1. Is the preemptive federal antitrust and patent policy as embodied in an antitrust consent decree subservient to rights asserted by the antitrust defendant solely under state law?

2. Are antitrust consent decrees to be fairly and reasonably construed in the paramount public interest or narrowly construed to accommodate the private interests of antitrust defendants?

3. May a federal district court, having exercised its jurisdiction to determine the merits of a claim asserted under an antitrust consent decree, thereafter dismiss the claim for "lack of jurisdiction" and concurrently deny discovery of the jurisdictional issue?

4. Is an application for reasonable royalty determination pursuant to the express provisions of an antitrust consent decree, when challenged as inadequate on its face, entitled to the presumption that its averments are true in the same manner as a complaint in an ordinary civil action?

STATEMENT OF THE CASE

Antitrust consent decrees routinely require the defendants to license their patents at nondiscriminatory reasonable royalties. To insure that this mandate is honored, these consent decrees provide for the determination of a reasonable royalty rate by the decree court upon application by a party unable to reach agreement with the antitrust defendant.

This case arises out of petitioner's (Components') unsuccessful effort to invoke the aid of the decree court in the determination of reasonable royalties pursuant to the literal terms of one of these consent decrees.[1] Ignoring the express provision of the decree by which respondent (Western) is "ordered and directed to grant . . . to *any* applicant who

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[1] Components' "Motion . . . for Determination of Reasonable Royalties" is reproduced *infra*, pp. 10a-15a.

It also appears at pages 7 to 12 and 102 of the Appendix before the Third Circuit Court of Appeals which is hereinafter cited as "(App. —)".

shall make written application therefor at *any* time" (*infra*, p. 1a), the district court held that the decree "was not designed to be used in the manner that Components now urges" (*infra*, p. 8a). While thus exercising its jurisdiction to construe the decree, the district court dismissed Components' application summarily and without an evidentiary hearing "for lack of jurisdiction". And the district court concurrently denied Components' timely motion to take discovery and present evidence on the "jurisdictional" issue.

The court of appeals affirmed. To do so, the appellate court read into the decree a "jurisdictional" limitation which repudiates the decree's plain language. The appellate court *then* held petitioner's motion pleading deficient on its face for failure to include allegations specifically directed to this *new* "jurisdictional" limitation which the decree does not recite. Components' request on rehearing that the case be remanded to permit an amendment to the motion pleading responsive to the appellate court's "interpretation" of the decree to include an unexpressed jurisdictional limitation was summarily denied.

Both courts below, ignoring the federal preemption in the antitrust and patent fields, condoned Western's subversion of the consent decree by the institution of a state court action against petitioner for an "accounting" under an alleged "license agreement". Both courts refused to accept as proved the averments of Components' pleading that this so-called "license agreement" was "illegally consummated by Western . . . in derogation of" the consent decree, said agreement "being in fact but one of a plurality of license agreements so illegally consummated by Western" (Par. 2 as amended, *infra*, p. 11a).[2] Components' motion pleading was not accorded the same presumption of accuracy as is

[2] Components' motion pleading was dismissed "for lack of jurisdiction" on the face of its averments and without an evidentiary hearing. Accordingly, "all facts contained in the complaint and every inference fairly deducible therefrom . . . should be treated as admitted and proved, viewing the same in the light most favorable to the plaintiff". *Melo-Sonics Corp.* v. *Cropp*, 342 F. 2d 856, 858 (3 Cir. 1965). (Cont'd.)

afforded a complaint in an ordinary civil action under like circumstances.

The Consent Decree

The consent decree invoked by petitioner was entered January 24, 1956 by the United States District Court for the District of New Jersey in Civil Action 17-49, *United States of America* v. *Western Electric Company, Incorporated and American Telephone and Telegraph Company.*[3] The complaint in C.A. 17-49 was filed on January 14, 1949. It alleged violation of Sections 1, 2 and 3 of the Sherman Act (15 U.S.C. §§ 1-3) and sought injunctive relief under Section 4 of the Sherman Act (15 U.S.C. § 4).

Section X of the consent decree (*infra*, pp. 16a-21a), under which Components proceeded below, provides in relevant part:

> "(A) The defendants are each *ordered and directed to grant* or cause to be granted, to *any applicant* who shall make written application therefor at *any time* or from time to time, non-exclusive *licenses* under all claims of any, some or all existing and future Bell System patents . . . such licenses . . . (3) to be *at reasonable royalties* . . . but upon condition that the applicant shall grant to [Western] at reasonable royalties . . . [a cross-license under applicant's patents] . . .[4]
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> • • • • •

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[2] (Cont'd.)

Further, whether the averments be called "allegations of fact" or "mere conclusions of the pleader", "they must be taken into account in deciding whether a claim for relief is stated." *United States* v. *Employing Plasterers Ass'n.*, 347 U.S. 186, 188-189 (1954); *Knuth* v. *Erie-Crawford Dairy Coop. Association*, 395 F. 2d 420, 423 (3 Cir. 1968).

We accordingly quote as "facts" constituting the record below the averments of Components' motion pleading with appropriate reference to the paragraphs thereof.

[3] A copy of the consent decree captioned "Final Judgment" appears at App. 47-62. Section X is reproduced *infra*, p. 16a.

[4] We have emphasized the order in Section X(A) directing Western to grant licenses "to *any* applicant" "at *any* time" because the appellate opinion disqualifies Components as an applicant because of the *timing* of its request and otherwise circumscribes without reason the obligations of Western pursuant to Section X.

> "(B) Upon receipt of a written request for a license under the provisions of this Section [*i.e.*, "from *any applicant* . . . at *any time*"], . . . [Western] . . . shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, . . . If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant . . . may apply to this Court for the determination of reasonable royalties and other terms. . . ."*

The licenses which Western is ordered to grant to "any applicant . . . at any time" by Sections X(A) and X(B) are subject to the further condition of Section X(C) that

> "(C) [Western is] enjoined and restrained from including in any license granted . . . any restriction or condition whatsoever limiting the exercise of the rights granted thereby except that the license may be personal and non-transferable and may be conditioned on (1) payment of a reasonable royalty, if applicable, which shall be non-discriminatory as between licensees whose licenses are granted subsequent to the date of this Final Judgment. . . ."

Section X(C) further provides:

> ". . . but the royalty provisions of agreements under which licenses are *exchanged* and royalties are adjusted or eliminated to reflect a *bona fide* estimate of the values of such licenses shall not be deemed to discriminate between licensees. . . ."

The Pre-Litigation Activities of Components and Western

Components is a small company organized early in 1960 for the purpose of manufacturing and selling solid electrolytic capacitors. To obtain freedom of action in the solid electrolytic capacitor industry, Components applied to Western for a license under Western's relevant patents. Extensive negotiations ensued. "At no time did Western Electric advise Components, Inc. of the provisions of Para-

* Unless otherwise indicated, all emphasis is added.

graph X(B) of the 'Final Judgment' [consent decree] . . . as it should have" (Par. 10).

These negotiations resulted in an alleged "license agreement" effective as of June 1, 1960. As Components' application to the district court (*infra*, pp. 11a-15a) states: Pursuant to this alleged "agreement", "Components, Inc. was granted the right to produce and sell 'solid electrolytic capacitors' as disclosed in certain pending patent applications hereinafter referred to as Western Electric applications. The license agreement provided for the payment by Components, Inc., to Western Electric of a [4½%] royalty based on the net selling price of such capacitors, said royalty, however, not becoming due and payable until a patent issued on the licensed applications" (Par. 2).[5]

"At the time the license agreement was consummated on June 1, 1960, Components, Inc. understood that the patent rights which were the subject of the license included all those essential for the commercial production of solid electrolytic capacitors. This understanding was a primary motivation to Components, Inc. to accept the agreement in question" (Par. 3).

"On July 14, 1958, Interference 89,529 was declared by the United States Patent Office between a Western Electric application of Haring et al which was subject to the June 1, 1960 license . . . and an application of Robinson, assignor to Sprague Electric Company", which interference "ultimately resulted in the allowance of a *generic* claim covering solid electrolytic capacitors in the Sprague Electric Co. (Robinson) application which issued as U.S. patent 3,066,247" (Par. 4). "Subsequently, a much more limited species claim . . . was allowed in a Western Electric application filed as a division of the aforementioned Western Electric Haring et al application, which [divisional application] issued as U.S. patent 3,093,883 on June 18, 1963. . . . [O]n January 19, 1965, a second U.S. patent 3,166,693 issued on

[5] Insofar as is known, Western has made no effort to collect the 4½% royalty except from Components in the aforementioned Delaware "accounting" action.

the actual Western Electric Haring et al patent application against which there had been an adverse decision rendered by the Patent Office in Interference No. 89,529 . . ." (Par. 4). "As a result of that interference proceeding, the license covered only the narrow species patents 3,093,883 and 3,166,693 which are dominated by the generic patent 3,066,247 issued to Sprague Electric Co." (Par. 4).

"Components, Inc. was thus forced on August 11, 1964 to accept a license from Sprague Electric Co. to practice the invention of the generic patent 3,066,247 requiring the payment of royalty at the rate of 2% of the net selling price of the electrolytic capacitors it produced" (Par. 5).

"[A]s a result of the interference proceedings, Components, Inc. did not receive what it bargained for in the negotiation of the aforementioned June 1, 1960 license agreement" (Par. 4). "Further, and in part as a result of the aforementioned interference, the validity of the Western Electric patents 3,093,883 and 3,166,693 is open to serious question. Thus the value of the residual patent property . . . subject to the . . . June 1, 1960 license . . . was seriously attenuated by the interference proceedings" (Par. 6).

"Tacitly acknowledging that the consideration which led to the consummation of the original June 1, 1960 license agreement . . . was not reasonable in view of the result of the aforementioned interference proceedings, Western Electric unilaterally advised Components, Inc. that the original royalty rate would be lowered" (Par. 7).[6] "Components,

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[6] On December 4, 1963, Western wrote Components, stating:

"Re: Patent License Agreement between our companies effective as of June 1, 1960

"With respect to each solid electrolytic capacitor sold, leased or put into use on or after June 18, 1963 [the issue date of the first Western patent No. 3,093,883], on which royalty is payable by your company to Western under the above agreement, the royalty rate *is hereby reduced* to two and seven-tenths per cent (2.7%)." (App. 31)

On October 4, 1965, Western wrote Components, stating:

"Re: Patent License Agreement between our companies effective as of June 1, 1960 (Cont'd.)

Inc. has never accepted the reduced royalty rates as unilaterally proposed. . . . *Per contra,* Components, Inc. deeming the proposed royalties to be unreasonable, has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement by compromise and settlement as to a reasonable royalty in the premises" (Par. 8).

Western's State Court Action Against Components

While the aforementioned negotiations were in progress and without notice to Components, Western filed "an action [C.A. 2820] for accounting" based on the alleged June 1, 1960 agreement in the Court of Chancery of the State of Delaware in and for New Castle County (Par. 9).

In view of the fact that "At no time did Western Electric advise Components, Inc. of the provisions of Paragraph X(B)" of the consent decree, this state court action was an obvious attempt by Western to subvert it. *Cf. American Securit Co.* v. *Shatterproof Glass Corp.,* 268 F. 2d 769, 772 (3 Cir. 1959).

Components' Application for a Determination of Reasonable Royalties by the Decree Court

Counsel retained by Components incident the state court litigation invited attention to the consent decree in Civil Action 17-49 which Western had failed to mention during the negotiation period. Upon advice of counsel, Components' motion for a determination of reasonable royalties was filed in the decree court. Paragraphs 1 and 2 of Components' motion alleged jurisdiction pursuant to Section

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[6] (Cont'd.)

"With respect to each solid electrolytic capacitor sold, leased or put into use on or after January 19, 1965 [the issue date of the second Western patent No. 3,166,693], on which royalty is payable by your company to Western under the above agreement, the royalty rate *is hereby reduced* to one and eight-tenths per cent (1.8%)." (App. 33)

These unilateral repudiations of the original 4½% royalty rate are cogent intrinsic evidence that it is discriminatory.

X(B) of the decree and stated that the June 1, 1960 "agreement" was a nullity which could not be raised as a bar to the relief sought. Thus, paragraph 1 states:

> "(1) This Court has jurisdiction of this matter pursuant to the provision of Paragraph X(B) of the aforementioned 'Final Judgment' of this Court. . . ." (Par. 1, *infra*, p. 10a)

As to jurisdiction, Components' motion further alleged:

> "Components, Inc. and Western Electric have been 'unable to agree within 90 days upon reasonable royalties'[7] and upon 'other terms', and hence the prerequisites of Paragraph X(B) of the aforementioned 'Final Judgment' insofar as an application to this Court for the determination of reasonable royalties is concerned, have been satisfied. Accordingly, this Court had and still has jurisdiction over this matter. . . ." Par. 11, *infra*, p. 13a)

As to the alleged June 1, 1960 "agreement", Components' motion stated:

> "(2) On June 1, 1960, a 'License Agreement' was consummated between Components, Inc. and Western Electric Co., pursuant to which Components, Inc. was granted the right to produce and sell 'solid electrolytic capacitors' as disclosed in certain pending patent applications hereinafter referred to as Western Electric applications. . . .
>
> "The aforesaid license [June 1, 1960] *can not be raised as a bar to the present motion, inter alia because*
>
> "(a) It was illegally consummated by Western Electric Co., Inc. in derogation of the aforesaid 'Final Judgment', including specifically, but without limitation, paragraph X(C) thereof, said 'license agreement' being in fact but one of a plurality of license agreements so illegally consummated by Western as more fully set forth in paragraph *12* hereof:

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[7] Note the prior averment that "Components . . . has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement . . . as to a reasonable royalty" (Par. 8, *infra*, p. 13a.)

"(b) There has been no meeting of the minds of the parties with respect to any royalty, reasonable or otherwise, for the patents which ultimately were identified as subject to the alleged license, all as set forth more specifically in paragraph 3 to paragraph 11 hereof." (Par. 2, *infra*, p. 11a)

As to the illegality of the alleged license of June 1, 1960, under Section X(C) of the aforesaid "Final Judgment", Paragraph 12 of the Components Motion, as amended, alleges that

"The negotiations between Components, Inc. and Western Electric were, and the determination of a reasonable royalty is, seriously influenced by the discriminatory licensing practices in which Western Electric has engaged with respect to the patents which are placed in issue by this application.

"In part on information and belief, Components, Inc. represents that Western Electric has granted a plurality of licenses under such patents which are at net royalty rates substantially less than the royalty rate of 1.8% now demanded by Western Electric from Components, Inc., whereby Components, Inc. has been placed at a serious competitive disadvantage in the solid electrolytic capacitor industry.

"Further, on information and belief, said plurality of licenses, including the 'License Agreement' between Components, Inc. and Western Electric Co., Inc. identified in paragraph 2 hereof, are illegal *inter alia* by reason of the aforesaid discriminatory licensing practices which are in derogation of said final judgment." (Par. 12, *infra*, p. 13a.)

Components' motion thus asserted a substantial claim under the consent decree and under the patent and antitrust laws on which that judgment is premised.

Western responded to Components' application with an attack upon the jurisdiction of the court to entertain it. This attack was supported by affidavits of Western's employees Wertz and Feehan denying the allegations of Components' "moving papers . . . that Western . . . had

entered into 'discriminatory' license agreements in violation of the provisions of'' the consent decree.[8]

Recognizing its burden in the face of this attack by Western to establish subject matter jurisdiction by competent proof, *McNutt* v. *General Motors Acceptance Corp.*, 298 U.S. 178, 189, 80 L.Ed. 1135 (1936), Components, on September 26 and October 1, 1968, respectively, served on Western Electric Company and on the affiant Wertz and certain other Western executives (a) a notice of the taking of depositions (App. 84) and (b) two subpoenas *duces tecum* (App. 89, 90) demanding the production of the pertinent documents from Western's files.

The discovery contemplated by these deposition notices and subpoenas was deemed essential to the development of the facts requisite to a fair presentation of Components' case for jurisdiction. The affidavit of Gene W. Stockman (App. 117), counsel for Components, filed prior to the October 14, 1968 hearing, states: ''That it was the purpose of the subpoenas and of the 'Notice of Taking Depositions' to develop all of the relevant facts concerning the averments set forth in the aforementioned Wertz affidavit''; ''That he believes the information with respect to these factual issues . . . are peculiarly within the knowledge of the defendant Western Electric and are not available to applicant Components, Inc. . . . from any other presently known source''; and ''That it is his professional judgment . . . that Components, Inc. cannot reasonably or fairly state its opposition to the positions taken by Western . . . in the absence of the discovery sought'' (App. 117, 118).

On October 2, 1968 Western Electric responded to Components' request for discovery with its ''Motion to Set

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[8] The quotation is from page 14 of Western's brief before the appellate court, hereinafter cited as "W. Br. —". Pertinent excerpts are reproduced, *infra*, p. 24a.

The Court of Appeals, by order dated July 18, 1969, *infra*, p. 22a denied petitioner's "Motion for Order Authorizing Clerk to Include Briefs of Parties in Certified Record" citing Rules 21-1 and 23-3 of this Court.

Aside Notice of Depositions and to Quash Subpoenas" (App. 91). On October 4, 1968 Components filed its motion for "an Order staying the hearing on Applicant, Components, Inc.'s Motion for Determination of Reasonable Royalties pending the determination of Applicant's right to take discovery, and until it has had an opportunity to complete discovery procedures and pending hearing on Defendant's Motion to Set Aside Notice of Depositions and to Quash the Subpoenas Duces Tecum" (App. 96).

At the ensuing October 14, 1968 hearing, the district court *assumed* and *exercised* its *jurisdiction* to determine that Components' claim was not well founded because the consent decree "was not designed to be used in the manner that Components now urges" (App. 127; *infra,* p. 8a). Notwithstanding this affirmative exercise of its jurisdiction, the court dismissed Components' "Motion . . . for Determination of Reasonable Royalties" for lack of jurisdiction (App. 119, 128; *infra,* pp. 6a, 9a).

The dismissal was admittedly on the basis of arguments in the opposing papers of Western supported by *affidavits* of Western's employees which raised disputed fact questions germane to the jurisdictional issue—yet Components' timely motion for discovery on these very questions was summarily denied as "moot".

In its bench decision, the district court stated:

> "... it has been determined by the Court that the Court has no jurisdiction to entertain a motion of Components, Inc., for the determination of reasonable royalties, and, accordingly that motion is dismissed without prejudice and without costs.
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> * * * * *
>
> "... And I will make this further comment. I did have opportunity after you delivered to my office shortly after 9:00 a.m. to read your memorandum and also to read the papers that were enclosed with the file, and they have been considered in connection with my disposition of the motion." (App. 128-129, *infra* p. 9a.)

The "papers that were enclosed with the file" which the trial judge "considered in connection with [his] disposition of the motion" included the controversial affidavits filed by Western. Thus the final order of dismissal, which was drafted by counsel for Western, states:

> ". . . this Court having considered the various moving papers, *affidavits,* memoranda of law and arguments of counsel;
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> "IT IS on this 14th day of October, 1968, ORDERED and ADJUDGED that the application of Components, Inc. as amended for a determination of reasonable royalties . . . be and the same hereby is denied and the same be and hereby is dismissed for *lack of jurisdiction* without prejudice and without costs; and
>
> "IT IS FURTHER ORDERED and ADJUDGED that in view of the foregoing determination, the motions of defendant Western Electric Company, Incorporated to set aside notice of depositions and to quash subpoenas, and of Components, Inc. for a stay, be and the same hereby are declared moot." (App. 119, *infra,* p. 6a)

The district court refused to accept as admitted and proved the affirmative averments in Components' motion pleading that the so-called 1960 agreement "cannot be raised as a bar to the present motion . . . because (a) . . . It was illegally consummated . . . in derogation of" the decree and (b) "There has been no meeting of the minds of the parties with respect to any royalty . . . for the patents which ultimately" issued. Tacitly finding that these averments were *not* true, the court in its bench decision said

> ". . . This is not a case where one company is seeking a license from the Bell System and they are unable to agree upon royalties. Here an agreement was reached in 1960 and Components seek to use this action to secure either a retroactive reduction of royalties provided for in that agreement or a declaration that none are owing.

* * * * *

> " . . . if there were no contract between Components and Western Electric and Components made application for a license agreement, and if on consideration of that application and the terms of the agreement reasonable royalties could not be agreed upon, it may be that under such a state of facts that Components could seek the aid of this Court, but it would be only for the purpose of royalties to be paid in the future, not for a review of past performance." (App. 127; *infra*, p. 8a)

As will be seen, the appellate court condoned this refusal of the district court to accept as proved the averments of Components' pleading which was, nevertheless, found on its face to be fatally defective.

Neither court advanced any reason why Components' pleading should be treated differently from a complaint in an ordinary civil action under like circumstances.

Appellate Proceedings

In its "Statement of the Issues" on appeal, Components presented the questions which it deemed fairly raised on the record below, namely, whether the district court erred "in summarily dismissing for 'lack of jurisdiction' " Components' motion for a determination of reasonable royalties; whether the district court erred "in denying the timely request of . . . (Components) to proceed with discovery and present evidence on the jurisdictional issue"; and whether the district court erred "in dismissing Components' motion pleading for 'lack of jurisdiction' on the basis of representations of . . . Western . . . as corroborated by affidavits of Western's employees, while concurrently denying Components' . . ." request for discovery on the jurisdictional issue.[9] (C. Br. 1, 2) See *infra* p. 23a.

In contrast, appellee Western asserted in its counterstatement of the issues that the questions presented were, *inter alia*, whether the district court correctly determined (1) that one "not a party to" the original antitrust action which

[9] Components' opening brief below is cited "C. Br. —." Excerpts therefrom are produced, *infra*, p. 23a.

resulted in the consent decree has "no standing to obtain discovery" and "is not entitled" under Section X(B) "to attack its license agreement with Western Electric as allegedly contravening the" consent decree [10] and (2) "that Section X(B) . . . contemplates neither review of existing license agreements, nor resolution of disputes involving compensation for the past use of patents" [11] (W. Br. 1, 2) quoted, *infra*, p. 24a. The appellate court answered these questions in the affirmative.

While acknowledging that Section X of the consent degree "is *not* expressly limited to future royalties" (*infra*, p. 4a), the court of appeals posited its decision upon an express finding that "Components . . . *failed* to bring itself within Section X(B) by not applying for a determination of reasonable royalties for the *future*" (*infra*, p. 4a).

The court ignored and subverted the provisions of Section X(A) of the decree by which Western is "ordered" to grant a reasonable royalty license to "*any* applicant . . . at *any* time". To justify this imposition of an unexpressed jurisdictional limitation upon Section X(B)—and the dismissal of Components' motion for failure to anticipate it—the court said:

> ". . . [W]e will not give the provisions of an antitrust consent judgment 'a reading [which] ignores both context and good sense.' . . . *Since* the language of Section X(B) postulates a 'written request for a license,' an 'applicant,' and circumstances where the parties are 'unable to agree . . . upon reasonable royalties or any other terms,' *its language is clearly addressed to situations where the failure to conclude* a *licensing agreement* warrants judicial determination of what its terms

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[10] A successful attempt to bring this case into the ambit of inapposite precedent dealing with attempts to intervene in concluded antitrust actions—specifically, *Application of Clark Walter & Sons, Inc.*, 392 U.S. 659 (1968), involving the same consent decree here in issue. In its opinion the court relied upon the *Clark Walter* case (*infra*, p. 4a, note 6).

[11] An attempt—which also proved successful—to ignore the averments of Components' pleading that the alleged agreement was illegal and a nullity.

should reasonably be so that the parties may *commence performance.*[12] . . ." (*infra*, p. 4a)

In finding that Components' application did not anticipate this new "jurisdictional" limitation which is not consistent with the decree's provisions, the court said:

". . . By contrast, Components' allegation in its application that it had sought since 1963 to reach agreement with Western on a reasonable royalty, taken in conjunction with the undisputed fact that no royalties have been paid under the 1960 agreement, indicates that the request for judicial determination of reasonable royalties was directed to the past, namely, the period from 1963 to the time the application was filed. To this extent, it was properly dismissed for lack of jurisdiction. . . ." (*infra*, pp. 4a-5a).

This statement overlooks the fact that Components' application expressly sought a determination of "a reasonable royalty . . . under the Western Electric patents placed in issue by this motion" (*infra*, p. 14a), specifically patents 3,093,883 and 3,166,693 (App. 5.) These patents issued for a seventeen-year term, 35 U.S.C. 154, on June 18, 1963 and January 19, 1965, respectively (*infra*, p. 12a). The second of these patents will not expire until January 19, 1982. Reckoning from "the time the application was filed" on July 9, 1968, almost 14 years of "future royalties" are involved. To paraphrase the opinion, "to *this* extent" Components' application was *not* "properly dismissed for lack of jurisdiction", even by the appellate court's standards.

The appellate court, like the trial judge, was strongly—and erroneously—influenced by the pendency of the contract action instituted in the Delaware state court. While in its decision the court gave lip service to the "assumption" "that the 1960 licensing agreement is unenforceable, as

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[12] Note again that this ruling "ignores" the fact that by Section X(A) of the decree, Western is "ordered and directed to grant . . . to *any* applicant . . . at *any* time non-exclusive licenses"—not just to those applicants who wish to "commence performance".

alleged in Components' applications" (*infra*, p. 4a), it nevertheless held:

> "Even assuming that Section X(B) contemplates a determination of past royalties, it would appear unwise, for reasons of sound judicial administration and 'a proper regard for the autonomy of the states,' to preempt that previously filed state action in which Components is assured of a hearing as to the matters raised in its application to the District Court. See *Mottolese* v. *Kaufman*, 176 F. 2d 301, 302 (2nd Cir. 1949); *cf. United States* v. *Libbey-Owens-Ford Glass Co.*, 1955 CCH Trade Cases, ¶ 68,207 (N.D. Ohio 1955)."[13] (*infra*, p. 5a, Note 10)

As emphasized in Components' petition for rehearing (pp. 6, 7), this holding overlooks the fact that this case arises under the patent and antitrust laws and not under the Delaware state law. The doctrine of federal preemption precludes the state court action. *Sears, Roebuck & Co.* v. *Stiffel*, 376 U.S. 225 (1964); *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942); *Sperry* v. *Florida*, 373 U.S. 379 (1963); *Lear, Inc.* v. *John S. Adkins*, — U.S. —, 162 USPQ 1 (June 16, 1969).[14]

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[13] The cases cited by the appellate court do not support its ruling. *Mottolese* was a diversity case—a stockholders derivative action premised on state—not federal—law. *Libbey* was not concerned with state court proceedings at all but, rather, with an infringement action instituted by the antitrust defendant subject to the consent decree. In its opinion in the related case of *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (3 Cir. 1959), the court adverted to the fact that the United States in *Libbey* had filed "a petition for an order to construe and enforce the consent decree, alleging that Securit's action in bringing the suit at bar against Shatterproof was instituted as an attempt to defeat the Toledo decree and was barred by it and prayed that Securit be permanently enjoined from taking action in any court to prevent any applicant for a license from exercising any rights conferred by the Toledo decree" (268 F. 2d at 772).

[14] The court also said—erroneously—that "As to past royalties, Componepts will be free to litigate their reasonableness . . . in the Delaware state courts" and that "Components is assured of a hearing [in Delaware] as to the matters raised in its application [for a reasonable royalty determination]". (Cont'd.)

The appellate court was also preoccupied with the issue of whether or not Components' application adequately alleged that a "written request" as required by Section X(B) of the consent decree had been submitted to Western. Thus the court stated in footnote 6 of its opinion: "The application fails to allege that the 'written request' required by Section X(B) of the consent judgment was received by Western, and counsel for Components conceded at oral argument before us that no formal written request for a license had been served" (*infra*, n. 6, p. 4a). In footnote 9 of its opinion the court stated: "It is noted that Components' application . . . as noted in footnote 6, *supra*, . . . failed to allege a 'written request' " (*infra*, n. 9, p. 5a). As pointed out in the petition for rehearing, this "written request" issue was ***not raised in the lower court.*** It was raised *sua sponte* by the appellate court for the first time at the oral argument. As also stated in the petition for rehearing, counsel's recollection of his statements at oral argument is that it was conceded that no "formal" written request *could be identified in the printed appendix* BUT THAT counsel emphasized that the application had been summarily dismissed in the district court with *no opportunity to explore the issue which was* NOT *raised below.*

The Position of the United States

On December 11, 1968 the Assistant Attorney General, Antitrust Division, wrote the Clerk of the United States Court of Appeals for the Third Circuit as follows:

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[14] (Cont'd.)

As the court was advised on petition for rehearing, this statement is incorrect. On its face the Western complaint in the Delaware state court is "for an accounting". The relief sought is an order and judgment requiring Components "to account to plaintiff for royalties due" and granting "specific performance" of the alleged "agreement" (App. 37). The state court complaint does not contemplate a determination of the "reasonableness" of the royalties nor does it assure Components "of a hearing as to the matters raised in its application" for a reasonable royalty determination. In fact, a primary reason for seeking relief under the consent decree was the very fact that such relief is not available in the state court action.

"Dear Mr. Quinn:

"This is to inform you that the United States will not participate in the appeal of the above-captioned case.

"This action is one in which a private party seeks to have a determination of reasonable patent royalties under a judgment resulting from a government instituted case. While the decree confers rights upon private parties to obtain such determinations, the dispute here appears to be essentially private in nature *Shenandoah Broadcasting* v. *ASCAP*, 375 U.S. 39, 40." (App. 130)

REASONS WHY THE WRIT SHOULD BE GRANTED

1. *The issues are important to the administration of the patent and antitrust laws.* In the twenty years since 1948, at least thirty-one antitrust consent decrees (Exhibit A *infra*, p. 20a) requiring the defendants to license their patents at nondiscriminatory, reasonable royalties have been entered.[15] These consent decrees, "on which the effective enforcement of our antitrust laws depends in no small degree", *United States* v. *ASCAP*, 331 F.2d 117, 123 (2 Cir. 1964), are intended to regulate a substantial cross section of American industry. To be effective, the decrees must be given a practical construction consistent with the social policy they implement.

In this case, the lower courts have subverted the paramount public interest in effective antitrust law enforcement to the private interest of Western, the antitrust defendant. The lower courts have ignored the plain language of the decree which orders Western to grant reasonable royalty licenses to "any applicant . . . at any time" to hold that only applications by parties who wish to "commence perform-

[15] Exhibit A is a reproduction of the "Exhibit A" appearing at pages 17 to 19 of Western's brief below (W.Br. 17-19). In its appellate brief, Western says that these decrees contain "comparable provisions for the determination of reasonable royalties" to those of the Western decree here in issue (W.Br. 7), quoted, *infra* 24a.

ance'' may seek a ''determination of reasonable royalties for the future''. The scope of the relief afforded to the public is thus sharply restricted—and Western left free to restrain competition with its mass of patents in some ways even more effectively than if the decree had never been entered.

The decree mandates that Western must grant licenses under its patents not only at ''reasonable royalties'' but also that these licenses must be ''non-discriminatory as between licensees''. The Western decree provides, however, that Western may ''exchange'' licenses under its patents for a license under patents owned by its licensees and that royalty provisions of agreements under which licenses are exchanged and royalties are adjusted or eliminated to reflect a *bona fide* estimate of such licenses shall not be deemed to discriminate between licensees'' [Section X(C)].

Virtually the entire electrolytic capacitor industry is bound up in these cross-license arrangements with Western. Normally, no individual member of the industry knows of the terms and conditions of the licenses of his competitors. *This* information is known *only* to Western. The result is that Western, by virtue of the decree *as it has been construed below* is in a position to control competition in the whole industry merely by ''estimating'' *unilaterally* the value of the licenses received in ''exchange''—and then subtracting that estimated ''value'' from the ''established standard unilateral royalty rate'' which it is the admitted ''policy of Western Electric'' to establish. (Wertz Affid., par. 2, App. 80).

At the time its application was filed, Components had properly gained access to the license between Western and one of Components' competitors. For this reason, coupled with its knowledge of the industry, Components, in its reasonable royalty application was in a position to allege, on information and belief, that Western Electric *has* granted a *plurality* of licenses which are at ''rates substantially less than the royalty rate . . . now demanded by Western from Components, Inc., *whereby* Components, Inc. has been placed at

a serious *competitive disadvantage* in the solid electrolytic capacitor industry," and that "said plurality of licenses . . . are illegal *inter alia* by reason of the aforesaid *discriminatory* licensing practices which are in derogation of said final judgment" (*infra*, p. 14a).

The courts below just ignored this averment *to hold, that Western, having induced Components to sign an illegal contract in derogation of the decree, can now impose the agreement as a bar to the very relief which the subverted decree expressly authorizes.*

The result under the decision below is that Western is the *sole* judge of whether its own "estimates" of the value of the licenses it accepts in exchange are "bona fide"—and hence of whether the royalties it offers are "reasonable".

This emasculation of the consent decree is directly consequent from the lower courts' affirmative holding that Components' application is nonjurisdictional *because* Western after all is *not* required to grant reasonable royalty licenses to "any applicant . . . at any time" but rather must only grant licenses to parties desiring to "commence operations" and who apply for a "determination of reasonable royalties for the future".

To so hold, the court below was forced not only to ignore the plain language of the decree but also to render a decision conflicting both directly and in principle with the apposite decisions of this Court.

2. *The decision below is in conflict with the decisions of this Court enforcing the pre-emptive federal prerogative in the antitrust and patent fields.* The courts below denied Components' application primarily because of the existence of the alleged June 1960 license agreement. Both courts were particularly influenced by the pendency in the state court of Delaware of an accounting action instituted by Western in an attempt to enforce that illegal contract.

Quite apart from the question of whether the 1960 "agreement" is *per se* valid under *state law* is the fundamental and *dispositive issue of whether such a contract can stand as an impediment to the effective enforcement of*

the federal patent and antitrust statutes in any case. This Court has repeatedly held that it cannot.

As we emphasized on petition for rehearing (pp. 6, 7), in its decision, the court below overlooked the fact that Components' claim, framed as it was in the very terms of Section X(B) of the consent decree, arises under the antitrust and patent laws of the United States. As we said

> " . . .These laws, like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land. See Sperry v Florida, 373 US 379, 10 L ed 2d 428, 83 S Ct 1322 (1963). When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law. Sola Elec. Co. v Jefferson Elec. Co. 317 US 173, 176, 87 L ed 165, 168, 63 S Ct 172 (1942). . . ." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 (1964).

To this precedent, we now add the June 16, 1969 decision in *Lear* v. *Adkins*, — U.S. —, 162 USPQ 1 where *certiorari* was granted to reconsider the validity of the doctrine of patent licensee estoppel "in the light of our recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection. *Sears, Roebuck* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)."

In *Lear*, this Court overruled the doctrine of patent licensee estoppel which "is solely a matter of state [contract] law", as inconsistent with the federal law requirement "that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent". Similarly, the decision below subverting Components' claim under the decree to Western's rights, asserted solely under state contract law, is inconsistent with the federal prerogatives in the antitrust and patent fields.

The procedure by which this departure from basic principles was accomplished is equally in conflict with this Court's mandates.

3. *The dismissal of Components' application "for lack of jurisdiction" is in conflict with the apposite decisions of this Court.* The decision dismissing Components' application for "lack of jurisdiction" conflicts directly with the rule enunciated by this Court in many cases, including *Montana-Dakota Utilities Co.* v. *Northwestern P.S.C.*, 341 U.S. 246, 249 (1951); *Lauritzen* v. *Larsen*, 345 U.S. 571, 575 (1953); and *Romero* v. *International Terminal Operating Co.*, 358 U.S. 354, 359 (1959).

In *Romero*, the court said:

> "(a) *Jurisdiction under the Jones Act.*—The District Court dismissed petitioner's Jones Act claims for lack of jurisdiction. 'As frequently happens where jurisdiction depends on subject matter, the question whether jurisdiction exists has been confused with the question whether the complaint states a cause of action.' Montana-Dakota Utilities Co. v. Northwestern Public Service Co. 341 US. 246, 249, 95 L ed 912, 917, 71 S Ct 692. Petitioner asserts a substantial claim that the Jones Act affords him a right of recovery for the negligence of his employer. Such assertion alone is sufficient to empower the District Court to assume jurisdiction over the case and determine whether, in fact, the Act does provide the claimed rights. 'A cause of action under our law was asserted here, and the court had power to determine whether it was or was not well founded in law and in fact.' Lauritzen v. Larsen, 345 US 571, 575, 97 L ed 1254, 1262, 73 S Ct 921."

So in this case "a cause of action" under the consent decree and under antitrust and patent laws on which it rests has been "asserted here, and the court had power to determine whether it was or was not well founded in law and in fact". The district court below exercised that "power" to construe the decree and hold that Components' complaint "was *not* well founded in law and fact". It nevertheless dismissed Components' application for "lack of jurisdiction". The Third Circuit affirmed.

And, while the trial judge properly imposed upon Components the "burden . . . to establish . . . that the claim

asserted is one within the jurisdiction of the court'' (*infra*, p. 8a), *McNutt* v. *General Motors Acceptance Corp.*, 298 U.S. 178, 80 L. Ed. 1135 (1936), he quite improperly denied Components an opportunity to discharge this ''burden'' which he said ''Components has not borne''. In so holding, the district court, as affirmed by the court of appeals, acted in derogation of established law which guarantees a plaintiff the right to take appropriate discovery and to present relevant evidence in opposition to a motion to dismiss for lack of jurisdiction.

Such a blatant departure from the rule frequently reiterated by this Court presents an important problem of judicial administration warranting immediate correction.

4. *In conflict with the decisions of this Court, the lower tribunals refused to accept the averments of Components' motion pleading as admitted and proved.* It is established law that upon a motion to dismiss a civil complaint for failure to state a claim, all facts contained in the complaint and every inference fairly deducible therefrom should be treated as admitted and proved, viewing the same in the light most favorable to the plaintiff. Moreover, whether the averments be called ''allegations of fact'' or ''mere conclusions of the pleader'', they must be taken into account in deciding whether a claim for relief is stated. See *United States* v. *Employing Plasterers Ass'n.*, 347 U.S. 186, 188-189 (1954); *Melo-Sonics Corp.* v. *Cropp*, 342 F.2d 856, 858 (3 Cir. 1965).

In this case, *both* courts below refused to apply this settled law to the averments of Components' motion pleading. Among other things, both courts ignored totally the averments of Components' pleading that the 1960 license agreement was illegal and void, *inter alia*, as discriminatory within the meaning of Section X(C) of the decree itself. Instead, both courts below assumed—contrary to Components' averments—that the 1960 agreement is a valid, enforceable contract and posited their opinions importantly upon the litigation involving it in the Delaware state court.

If the averments of Components' motion pleading *had been taken as true,* as they should have been, dismissal for want of jurisdiction was foreclosed. It was for that reason that these averments were ignored.

CONCLUSION

It is respectfully requested that this Petition for Writ of Certiorari be granted.

Respectfully submitted,

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